

Internal Audit Department



FINANCIAL CONDITION REPORT

Fiscal Year 1998-99



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MARICOPA COUNTY FINANCIAL CONDITION REPORT

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June 12, 2000

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Internal Audit has completed a report on the financial condition of Maricopa County as of June 30, 1999. This work was part of our Board-approved audit plan and was performed in conjunction with our FY 1999-2000 risk assessment. This report provides important information on County financial conditions and trends over the past ten years.

Overall, the County's financial condition and trends were favorable. The Board of Supervisors, Elected Officials, and County management should be commended for the many actions taken to achieve these results. Maintaining a balance between fiscal health and maximum service provision is a difficult task.

We acknowledge that evaluating a jurisdiction's financial condition is a complex process; many variables are difficult to isolate and quantify. I believe, however, that a routine assessment of the past heightens awareness and insight for the future. Additionally, a comparison to benchmarks broadens our perspective. This type of financial analysis alerts County officials of potential concerns, and facilitates the Board's governance of Maricopa County.

If you have any questions or wish to discuss anything presented in this report, please contact me at your convenience.

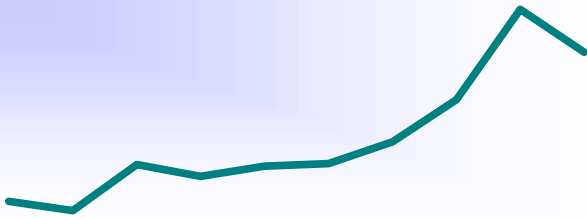
Sincerely,

Ross L. Tate
County Auditor



EXECUTIVE SUMMARY

General Fund Liquidity



Maricopa General Fund Liquidity

Maricopa's liquidity position (ability to pay short-term obligations) is strong, although FY99 liquidity slipped from FY98. Notably, no external borrowing has occurred since FY96. (See pages 1 and 2.)

General Fund Unreserved Fund Balance

Maricopa's General Fund equity (unreserved fund balance) as a percent of revenues, has shown improvement each year since FY95. Maricopa's fund balance position outpaces the benchmark counties. (See page 2.)

Unreserved General Fund Balance



Long Term Debt Per Capita

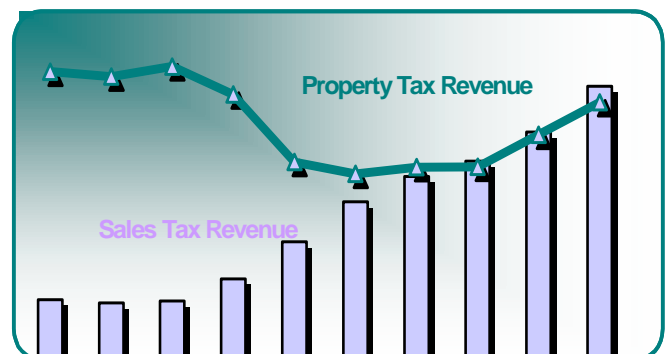


Maricopa Per Capita Long Term Debt

Maricopa's long-term per capita debt position is significantly below selected national benchmark and Arizona benchmark debt. Maricopa's low long-term debt has contributed to bond rating upgrades. (See page 3.)

Sales Tax to Property Tax Comparison

Sales tax revenues make up 44% of Maricopa's FY99 general fund revenues. Maricopa's reliance on sales tax revenue exposes the County to economic forces such as sales tax declines caused by Internet sales and fluctuations in purchasing power. (See pages 6 and 9.)





EXECUTIVE SUMMARY

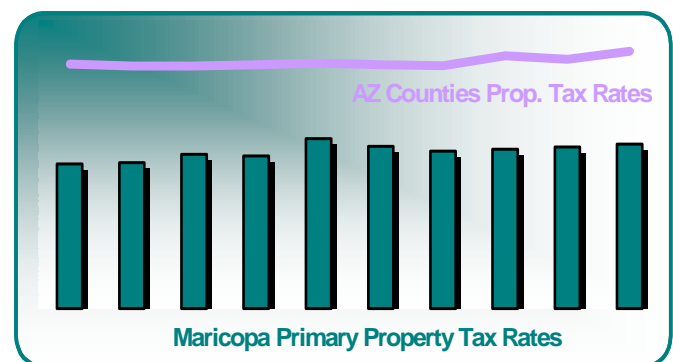


Assessed Property Value versus Market Trend

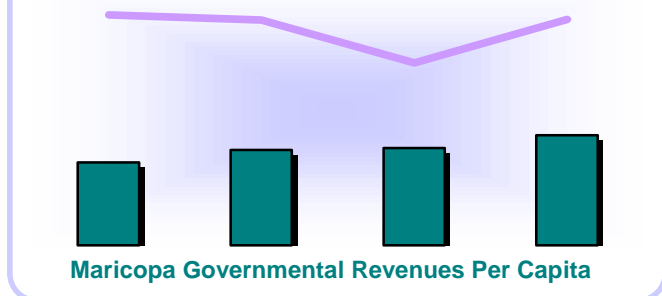
Although total property market values have been rising, total taxable assessed property value has been declining (in 1999 dollars). The increasing disparity between these two trends adversely affects property tax revenues. (See page 10.)

Primary Property Tax Rate Comparison

Maricopa's primary property tax rate has been significantly lower than the average of all other Arizona counties over the last ten years. (See page 16.)



AZ Benchmark Governmental Revenues Per Capita

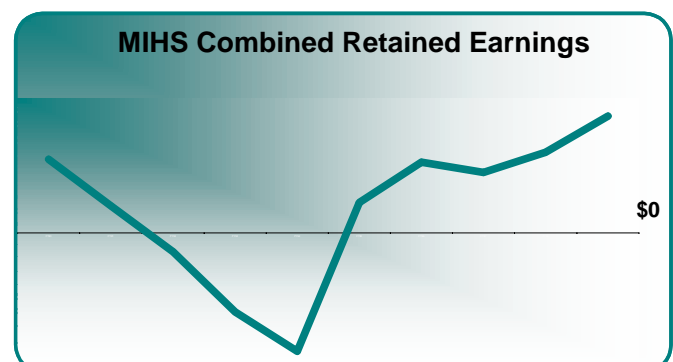


Governmental Revenue Comparison

Maricopa's per capita governmental revenue was consistently lower than eleven selected Arizona benchmark counties. (See page 15.)

MIHS Combined Retained Earnings

MIHS' combined retained earnings (Medical Center plus Health Plans) has shown significant improvement over the last five years. (See page 18.)

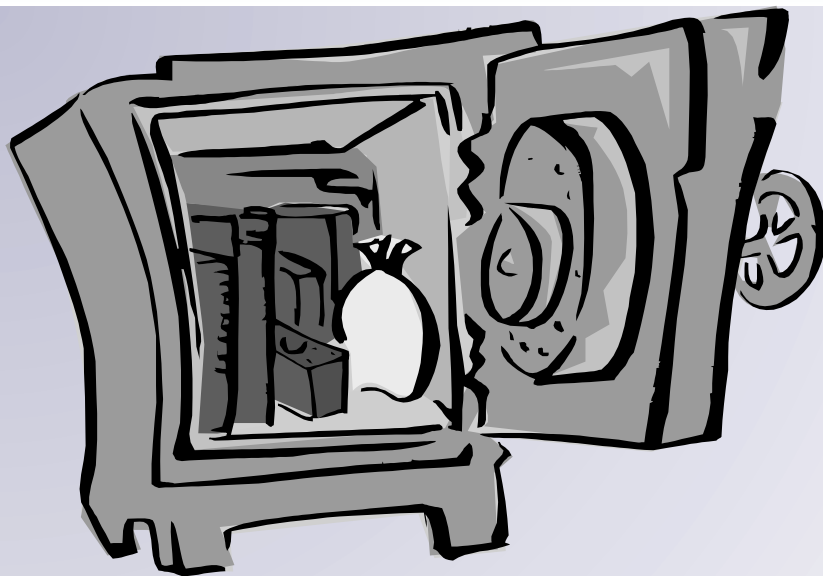


Benchmark Counties

Clark County
Harris County
King County
Los Angeles County
Multnomah County
Pima County
Orange County
Salt Lake County
San Diego County
Santa Clara County



GENERAL FUND LIQUIDITY



Cash position is a key measure of short-term financial condition.

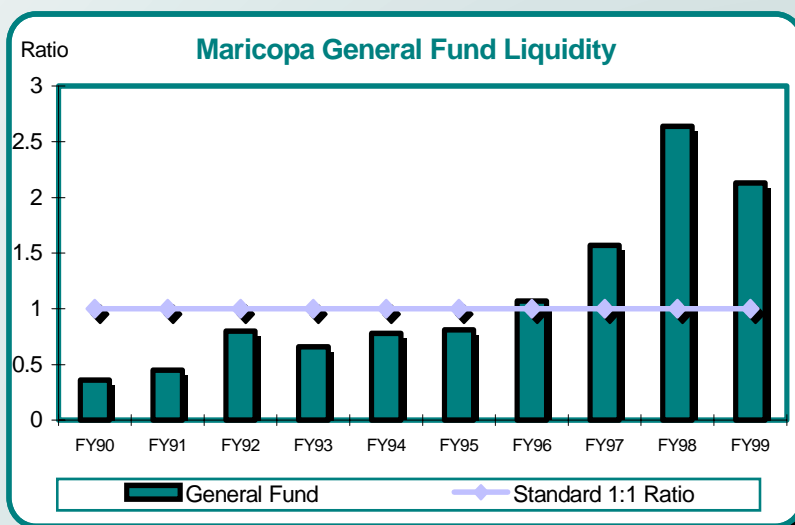
What Are Liquidity Indicators?

Liquidity measures Maricopa's ability to pay short-term obligations. Low liquidity or a declining trend could signal that Maricopa has overextended itself.

Two County liquidity position views are presented below. The first indicator shown is a picture of Maricopa's liquidity trend over the past ten years. On the next page, Maricopa's liquidity trend is compared with the average of nine benchmark counties.

What does Maricopa's Ten Year Liquidity Trend Look Like?

International City/County Management Association (ICMA) guidelines state an excess of liabilities over cash and short-term investments is unfavorable. The recommended ratio is at least one-to-one. Although Maricopa's liquidity ratio is still high, a significant decrease occurred between FY98 and FY99 (liabilities increased faster than the sum of cash plus short-term investments). These increasing liabilities include employee compensation and amounts due to other governmental units.

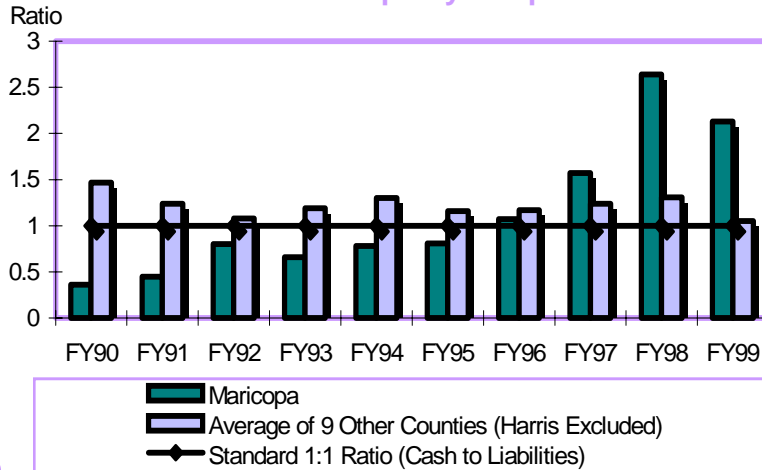


Maricopa's General Fund has an ample \$2.13 in current assets for every \$1.00 of liability.



GENERAL FUND LIQUIDITY / UNRESERVED FUND BALANCE

General Fund Liquidity Comparison



Maricopa's FY99 liquidity ratio was a robust 2.13. The benchmark average was only 1.05.

How Does Maricopa Liquidity Compare to Benchmarks?

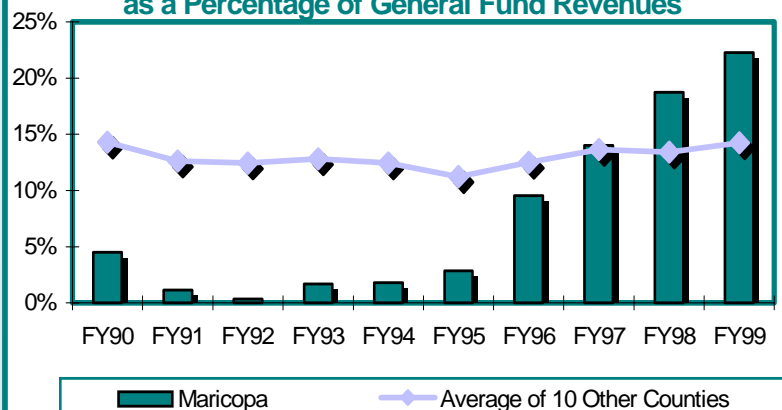
This graph compares Maricopa's General Fund liquidity ratio (its ability to pay short-term obligations) to the average ratio of nine other counties. Maricopa continues to maintain higher liquidity than the benchmark average. The favorable difference between Maricopa's liquidity and the benchmark average is especially impressive when one considers that Maricopa has a larger percentage of its assets in receivables at year-end than do most of the benchmark counties.

How Does Maricopa's General Fund Balance Compare to Benchmarks?

The General Fund unreserved fund balance represents expendable, available financial resources.

Maricopa's General Unreserved Fund Balance has experienced steady growth. Financing sources have exceeded financing uses, resulting in a favorable increase in fund balance. Maricopa's FY99 performance outpaced the benchmark's significantly. (Unexpected fund balance declines are a warning sign).

Unreserved General Fund Balance Comparison as a Percentage of General Fund Revenues

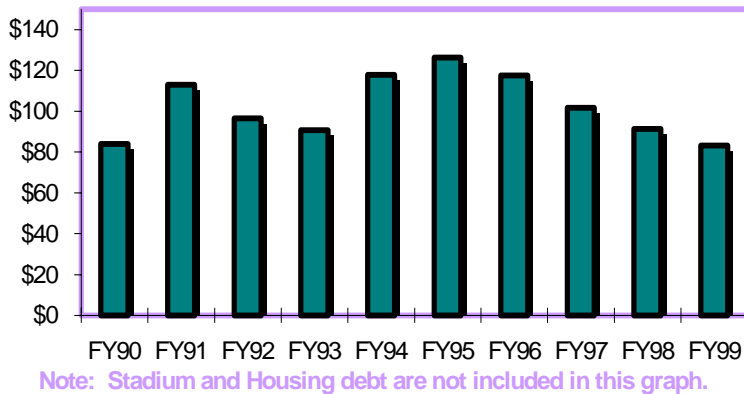


Maricopa's fund balance greatly improved from 10% of gross operating revenue in FY96 to 22% in FY99.



LONG TERM DEBT PER CAPITA

Maricopa Long Term Debt Per Capita
in 1999 Dollars



Maricopa's FY99 long-term debt per capita is 34% less than FY95.

How Has Maricopa Long-Term Debt Changed?

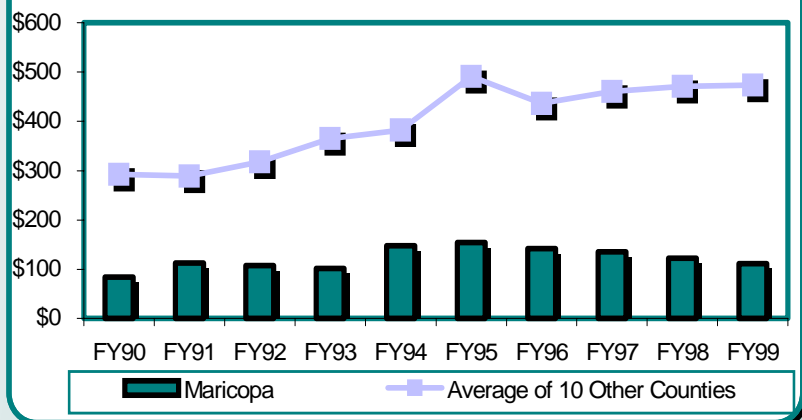
Governments borrow money over long periods of time to finance assets designed to serve citizens for many years, such as buildings, road improvements, and stadiums. This graph shows the dollars Maricopa owed per capita (per citizen) over the past ten fiscal years, adjusted for inflation. Long-term debt takes many forms, including General Obligation Bonds, Capital Leases, Certificates of Participation (COPs), Special Assessments, and Employee Compensation Payables. Long-term debt decreases are considered favorable providing infrastructure is adequately maintained.

How Much Does Maricopa Owe Compared to Benchmarks?

Maricopa's long-term debt per capita is well below the benchmark average. Maricopa's low debt has contributed to bond rating upgrades.

Debt is commonly used to pay for capital improvements. Debt should not increase faster than the County's tax base, extend past the useful life of the facility being financed, or jeopardize credit ratings. Further, debt should not be used to balance the budget or result in payment amounts that overburden operations.

Long Term Debt Per Capita Comparison
in 1999 Dollars



Maricopa's long term debt is \$363 per capita below the benchmark average, adjusted for inflation.



GOVERNMENTAL FUND REVENUE INDICATORS



Service delivery is directly dependent upon revenues.

Revenues: How Much Is Enough?

Revenues determine the amount and type of County services delivered. Ideally, revenue growth will equal or exceed the combined effect of inflation and expenditures. The following measurements are used to predict how this balance is maintained:

- ◆ Dependability- efficiently and effectively collecting revenues.
- ◆ Diversity- achieving a balanced mix of revenue sources.
- ◆ Elasticity- successfully weathering changes in economic forces such as inflation.

What Are Maricopa's Primary Revenues?

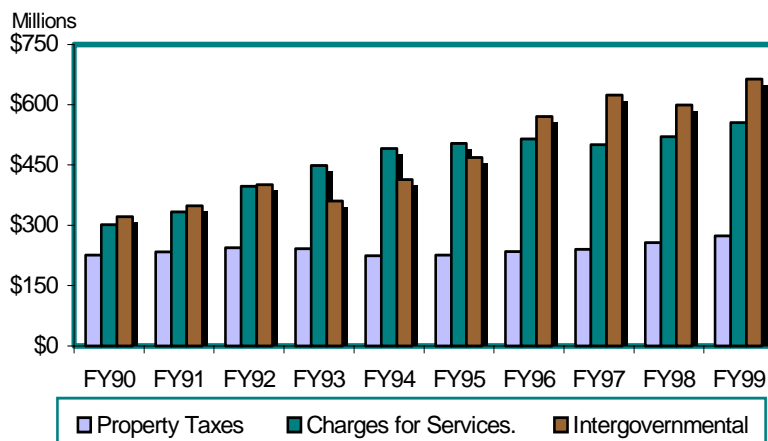
Maricopa's three largest revenue sources are

- ◆ Intergovernmental Revenue
- ◆ Charges for Services
- ◆ Property Taxes.

Intergovernmental revenues include monies from various grant sources, sales, vehicle license, gas, and jail taxes. Sales tax is the largest local intergovernmental revenue.

Pages five and six present different views of Maricopa's revenue stream and its dependability, diversity, and elasticity.

Maricopa Total Revenue Sources - Trends/Uninflated

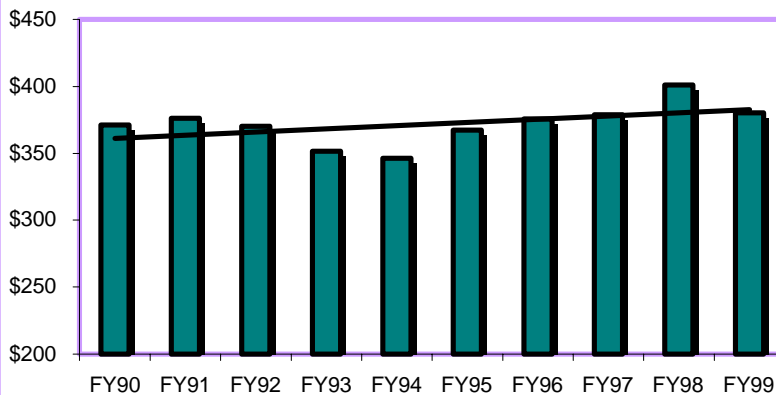


Charges for Services and Intergovernmental revenue trends increased while property taxes remained relatively flat.



GOVERNMENTAL FUND REVENUE INDICATORS

Maricopa Governmental Fund Revenues Per Capita in 1999 Dollars



Maricopa's Governmental Fund revenues per capita only increased 2.4% between FY90 and FY99 (adjusted for inflation).

How Have Maricopa's Governmental Fund Revenues Changed?

Governmental Fund Revenues include the General Fund, Special Revenue Funds, Debt Service Fund, and Capital Projects Fund.

Maricopa's FY98 Governmental Fund Revenues were high relative to other years because revenues related to funding major league stadium construction reached their peak.

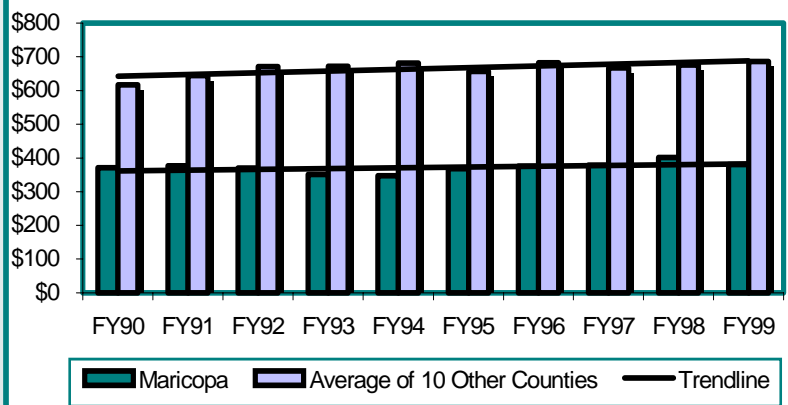
Some experts favor small governmental revenue increases, like Maricopa's, because small increases represent a lower tax burden. Others warn that revenues must increase to keep pace with service delivery expectations, assure long term financial health, and avoid short-term borrowing.

Are Maricopa's Revenues Comparatively Lower?

Maricopa showed a mere 2.4% or \$9 increase in per capita revenues (1999 dollars) between FY90 and FY99. In contrast, the benchmarks, on average, experienced a \$69 per capita (11.3%) increase of governmental revenues.

Maricopa's per capita revenues are also lower than the Arizona Benchmarks (see page 15). The data suggests that Maricopa citizens enjoy a low tax burden.

Governmental Fund Revenue Comparison in 1999 Dollars

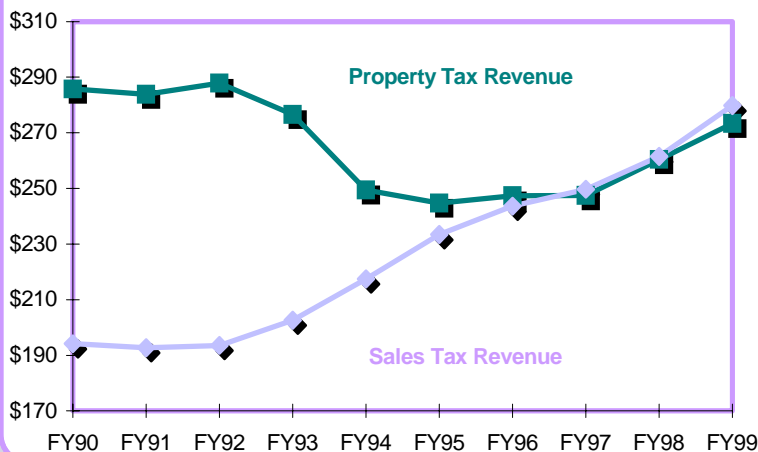


High levels of productivity and innovation combined with reductions in unnecessary services support lower tax burdens.



GOVERNMENTAL FUND REVENUE INDICATORS

Two Major Revenues in 1999 Dollars (Millions)



Between FY90 and FY99, Property Tax revenues decreased 4.4% while sales tax revenues increased 44% (in 1999 dollars).

Does Maricopa Rely More Upon Sales Tax or Property Tax?

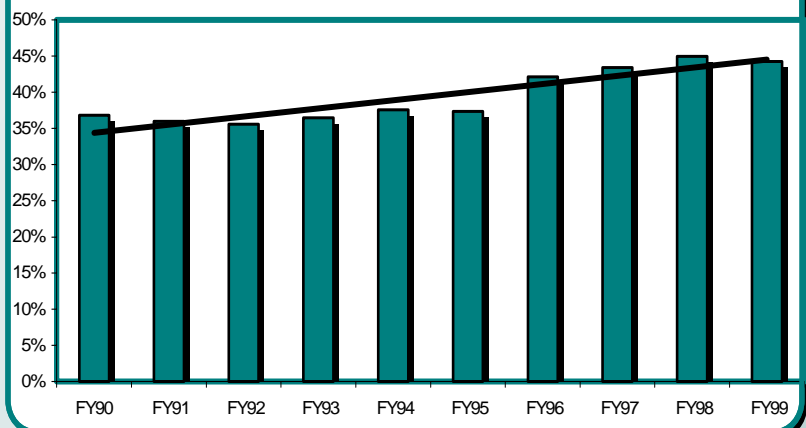
Sales taxes are collected and distributed by a separate governmental entity, (Arizona State Department of Revenue) and are therefore outside County control. Maricopa's increasing reliance on sales tax revenue creates exposure to economic forces such as a potential decline in sales tax revenues from an economic recession. Conversely, Maricopa has more control over property tax revenue. Although Maricopa taxpayers may view lower property taxes as favorable, an increased dependence on sales tax may be considered unfavorable.

How Much Does Maricopa Rely on Sales Tax?

Sales tax revenues make up 44% of Maricopa's FY99 General Fund revenues. This represents a 24% increase over FY92 and points to an increasingly heavy reliance upon this elastic revenue. Elasticity signifies vulnerability to external economic factors. Additionally, increasing Internet sales pose a new threat to sales tax collectibility.

Maricopa uses a local economist's forecast to monitor the impact of economic and technological trends, including e-commerce, on the County's sales tax revenues.

Maricopa Sales Tax Revenues as a Percentage of Total General Fund Revenues in 1999 Dollars

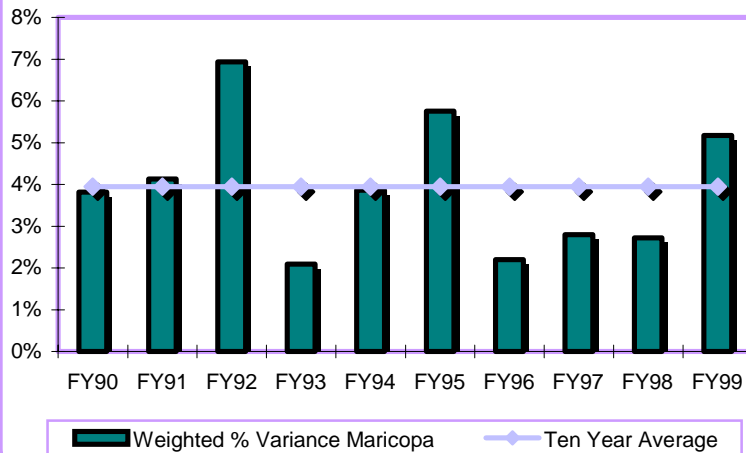


A balance between elastic and inelastic revenues tends to moderate the effects of economic change.



GENERERL FUND FORECASTING & SOURCES VS. USES

Revenue Forecast Variances
Variances Displayed As Positive Numbers Only



While the overall trend has been favorable, FY99's revenue forecasting underestimated revenues by 5.2 percent.

How Accurately Did Maricopa Forecast Revenues?

This graph compares General Fund revenue estimates and amounts actually received. The graph combines Property, Sales, and Vehicle License Tax (VLT) revenues. The percentages shown represent how close budget estimates were to the amounts received. The largest variances in FY99 were found in Sales Tax (\$16.5 million) and VLT (\$119 million). FY98's VLT variance was only \$2 million. In the last six years, revenues were underestimated, which is preferable to overestimating revenues.

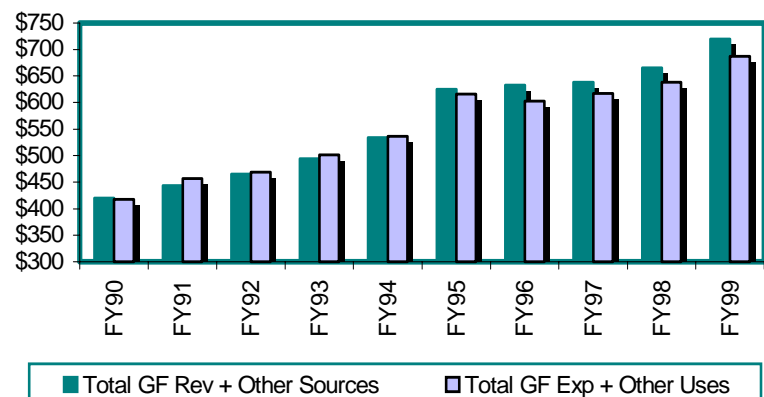
Major variances can indicate a changing economy, inefficient collection procedures, or inaccurate estimates. See Appendix (A4-A5).

Does the General Fund Use More Resources Than it Takes In?

"Sources" are all inflows, including revenues. "Uses" are all outflows, including expenditures.

During FY91 through FY94, General Fund total uses exceeded total sources, resulting in fund balance reductions (see bottom of page 2, Unreserved Fund Balance). Maricopa's General Fund sources exceeded uses during FY96 through FY99 by a healthy 4.5% average. In contrast, the benchmarks' General Fund Sources versus Uses FY99 average was only 1%.

General Fund--All Sources Versus All Uses
(Uninflated--Millions)

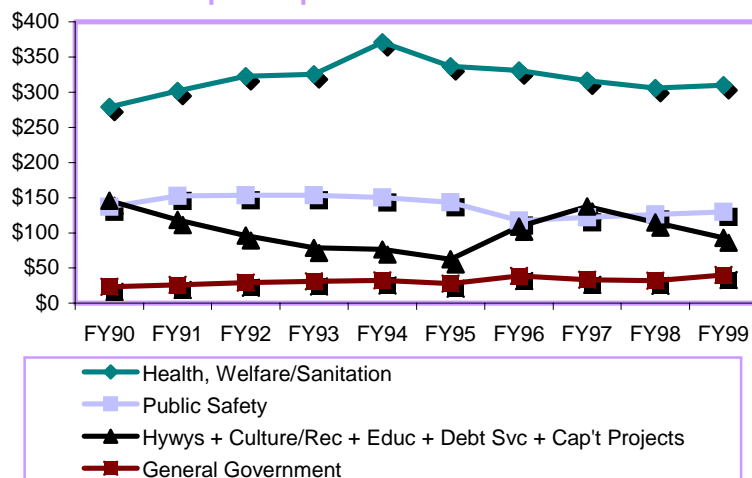


Maricopa's Uses have not exceeded Sources since FY94.



TOTAL MARICOPA EXPENDITURES

Per Capita Expenditures in 1999 Dollars



Health and Welfare per capita expenditures unfavorably increased 11.2% between FY90 and FY99 as adjusted for inflation, however, the trend since FY94 has been favorable.

How Does Maricopa Spend Its Resources?

Health and Welfare makes up 54% of Maricopa's per capita total expenditures, Public Safety 23%, Highways + Culture/Rec + Education + Debt Service + Capital Projects 17%, and General Government 5%.

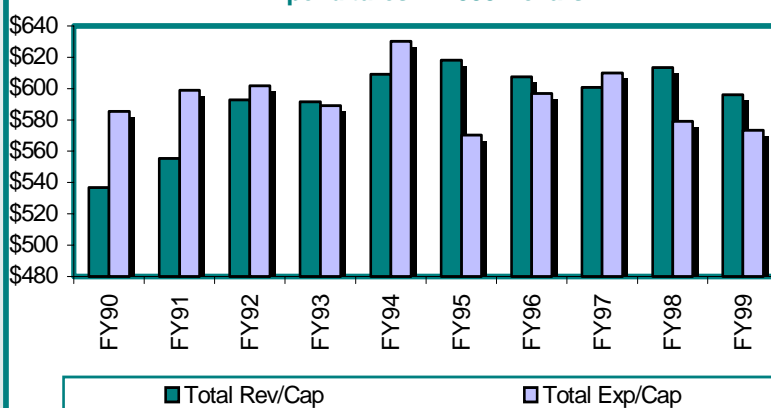
Note: In FY92 and FY95, ALTCS and AHCCCS contributions were classified as "General Government" expenditures, and in FY94 and FY96 they were classified as "Health and Welfare" expenditures. The graph has reclassified all as Health System expenses. FY95-96 expenditures in General Government and Public Safety were adjusted for estimated Internal Service charges. Public Safety includes Flood Control District. The Highways + Culture/Rec + Education + Debt Service + Capital Projects large FY94-97 increase was primarily due to stadium construction.

Do Maricopa Total Revenues Keep Pace With Total Expenditures?

The graph at right shows the relationship between Total Revenues and Total Expenditures for the past ten years. In FY90, FY91, FY92, FY94, and FY97 Maricopa expended more than it took in. Spending in excess of revenues can result from:

- ♦ fixed cost increases
- ♦ ineffective budgetary controls
- ♦ declining productivity
- ♦ excessive program growth

Per Capita County Total Revenues vs. Total Expenditures in 1999 Dollars

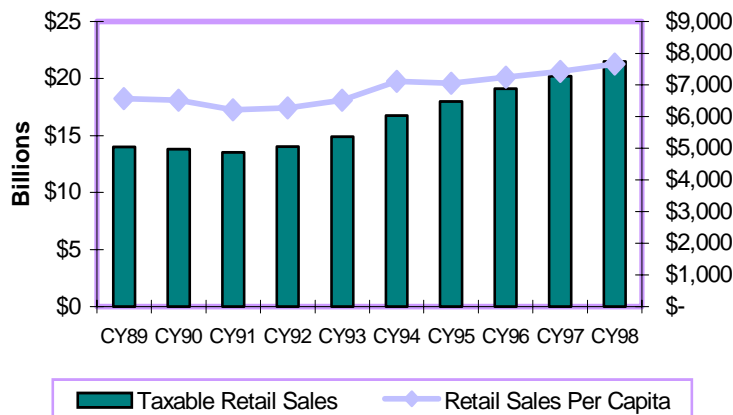


Per capita revenues have favorably exceeded per capita expenditures for the past two years.



MARICOPA COUNTY ECONOMIC TRENDS

Maricopa Taxable Retail Sales versus Retail Sales Per Capita (in 1999 Dollars)



Maricopa's total retail sales and per capita retail sales growth have slowed over the last several years (in inflated dollars).

What Happened To Maricopa's Taxable Retail Sales?

The ICMA asserts that business activity levels (retail sales) affect local government financial condition in two ways: 1) Business activity affects revenue yields (sales tax); 2) Changes in business activity affect economic factors (personal income, property value, and employment base).

How Do Internet Sales Affect Maricopa's Sales Tax Revenues?

The National Association of State Budget Officers projects that E-Commerce (internet sales) will grow to a range of \$7 to \$14 billion in 2000. These untaxed transactions could affect Maricopa's sales tax revenues. Nationally, legislators are debating the potential taxability of these sales.

E-Commerce can affect Maricopa's tax revenues in two ways: a direct reduction in revenue stream, and a potential effect on property taxes resulting from decreases in the size and number of "bricks and mortar" retail businesses.

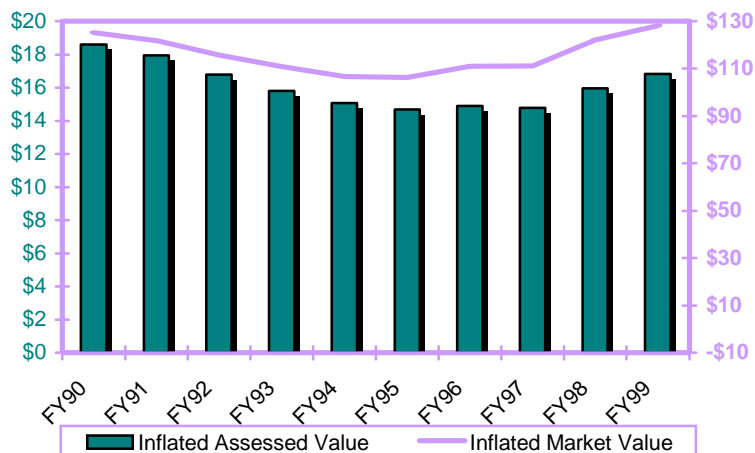


Untaxed Internet sales may impact Maricopa's sales tax revenue growth.



MARICOPA COUNTY ECONOMIC TRENDS

Maricopa Total Assessed Property Value Compared to Market Value (Billions/Inflated)



Maricopa's total taxable assessed property value declined 10% over the past 10 years (in 1999 dollars).

How Does Maricopa's Assessed Property Value Affect Property Tax Revenues?

Maricopa's total taxable assessed property value has declined 10% over the last ten years. Although total market values have risen (as pictured by the lavender line), total assessed property values have not kept pace.

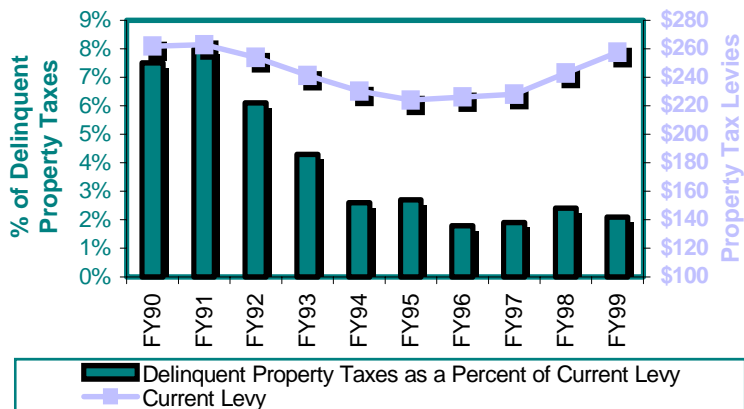
Property tax revenues are calculated on the assessed value using a tax rate that has remained relatively level. Consequently, revenues from property taxes have declined (in 1999 dollars).

Note: Assessed and market values are in 1999 dollars.

Does Maricopa Collect Property Taxes Efficiently?

Maricopa's delinquent property taxes have decreased and remained low (except for immaterial fluctuations) in the last several years, and is therefore considered a favorable trend. From FY95 through FY99, property tax levies have increased significantly, from \$201 million to \$255 million. Over the same period, delinquent property taxes declined, from 2.7% to 2.1%. This trend indicates a continuing healthy local economy and efficient collection procedures.

Maricopa Delinquent Property Taxes as a % of Current Levy (Millions and Inflated)

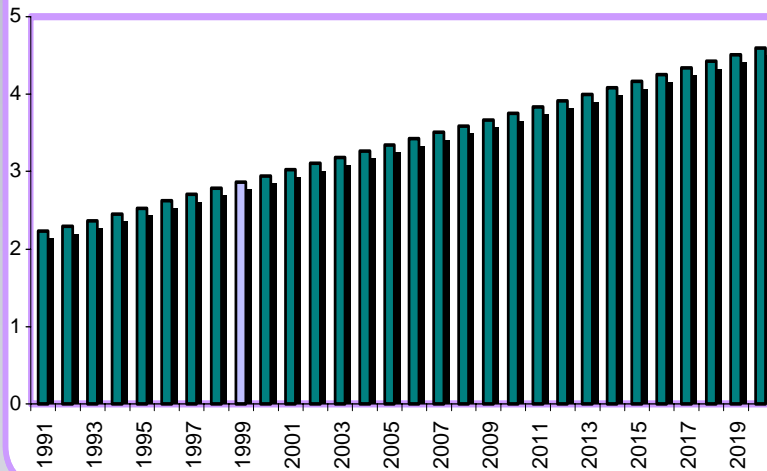


Maricopa's delinquent property taxes declined from 2.7% to 2.1% of total property tax levies from FY95 through FY99.



MARICOPA COUNTY ECONOMIC TRENDS

Maricopa Forecasted Population (Millions)



Increasing population contributes to revenue growth and pressure for additional services.

How Many New Residents Must Maricopa Be Ready To Serve?

Maricopa's population growth estimate shown on the graph comes from the Center for Business Research, College of Business, Arizona State University. A Center newsletter pointed out that population growth accounts for a large part of the state's total personal income growth

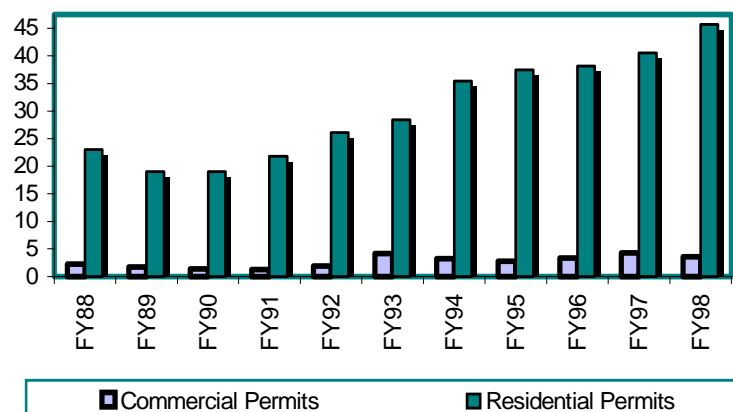
According to ICMA, "Population change can directly affect governmental revenues". The 2000 Census population data will directly impact Maricopa's revenue streams from both taxes and federal grants. Maricopa's population growth between 1991 and 2020 was forecasted as 104%.

How does Population Growth Affect Construction Growth?

Population growth results in construction growth and property tax revenue growth. Residential construction has experienced steady increases. As residential construction increases, Maricopa management should consider:

- ◆ Does the cost of serving new residents equal corresponding revenues?
- ◆ Is business activity growth proportional to residential development?
- ◆ Which services will be impacted by construction growth?

Maricopa Construction Permits (Thousands)

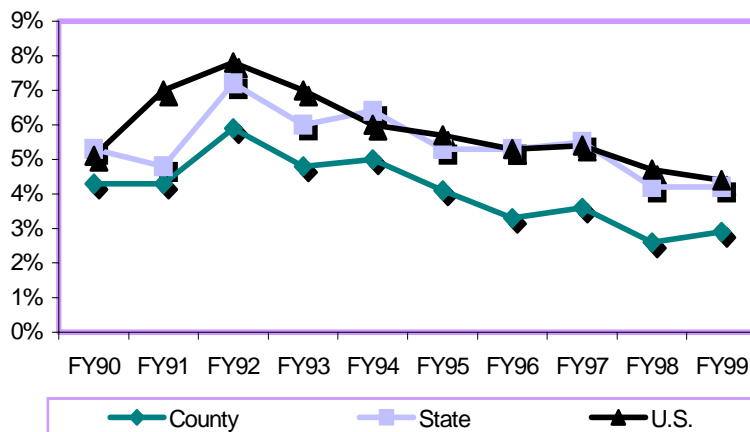


Residential permits reflect significant population gains.



MARICOPA COUNTY ECONOMIC TRENDS

UNEMPLOYMENT RATE:
MARICOPA, ARIZONA, U.S.



Maricopa's unemployment rate decreased 33% from FY90 to FY99.

How Does Maricopa's Unemployment Rate Compare?

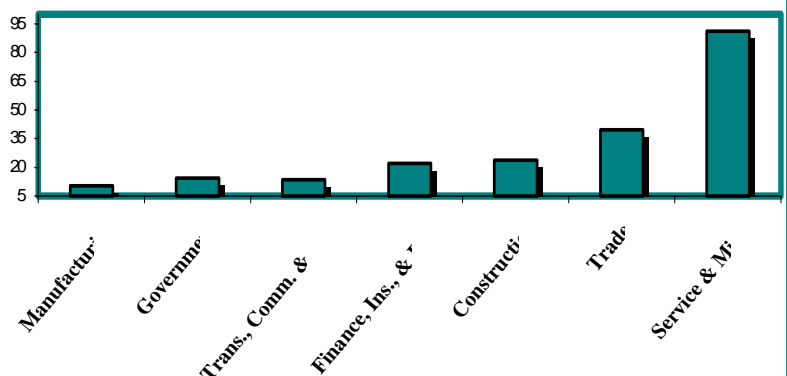
Maricopa's unemployment rate has remained below the national and Arizona rates since 1990, and decreased 33% from FY90 to FY99. The State unemployment rate experienced a 21% drop, while the U.S. rate declined 14% during the same period. DES Research Administration's December 16, 1999 press release stated additional jobs were created within the service-producing, manufacturing, and construction industries in calendar year 1999. ([see below](#))

Where Are The Jobs?

The graph at right shows job growth in seven major labor force categories. Information presented is based on recent data compiled by the Research Administration of the Department of Economic Security. The service segment is the largest of Maricopa's labor force at 14%, while the construction segment (now 6%) was the fastest growing portion of the labor force from FY96-FY99.

Consideration of the type of new jobs created and their salary levels partly drive Maricopa's economic development efforts.

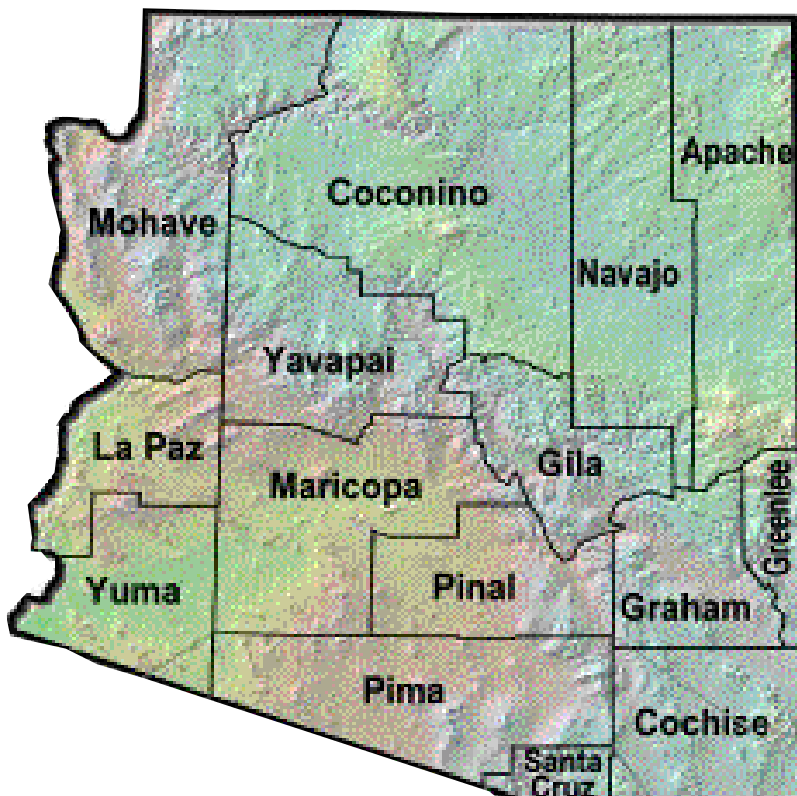
Increase In Labor Force Categories:
From FY96-FY99 (Thousands)



The construction segment was the fastest growing portion of Maricopa's labor force from FY 96 through FY99.



ARIZONA COUNTIES COMPARISONS



The eleven AZ benchmark counties are :
Apache, Graham, Greenlee, LaPaz, Mohave, Navajo, Pima, Pinal,
Santa Cruz, Yavapai, Yuma.

Why Compare Maricopa to Other Arizona Counties?

In the previous section, Maricopa was compared to ten counties chosen as benchmarks because of their location, size, and growth rate. This section contains comparisons between Maricopa and sister Arizona (AZ) counties. These comparisons are useful because AZ counties are component jurisdictions under the same state government.

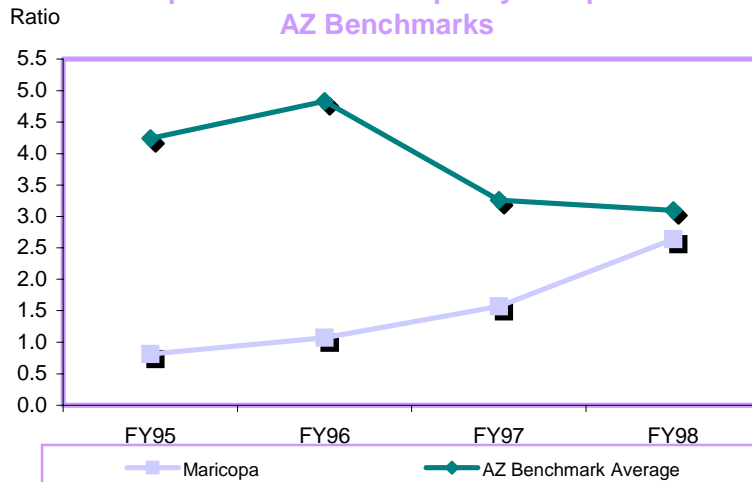
This section's comparisons are limited to eleven of the other fourteen Arizona counties. Three AZ counties were not included because financial statements needed for this comparison were unavailable.

The AZ benchmark comparisons are limited to FY95 through FY98. Many of the AZ counties' FY99 financial statements were not yet available and financial statements prior to FY95 were difficult to obtain.



ARIZONA COUNTIES COMPARISONS

Maricopa General Fund Liquidity Compared to AZ Benchmarks



Maricopa's liquidity ratio tripled, while the AZ benchmarks liquidity ratio decreased by one fourth (FY95-FY98).

How Does Maricopa's Liquidity Compare to AZ Benchmarks?

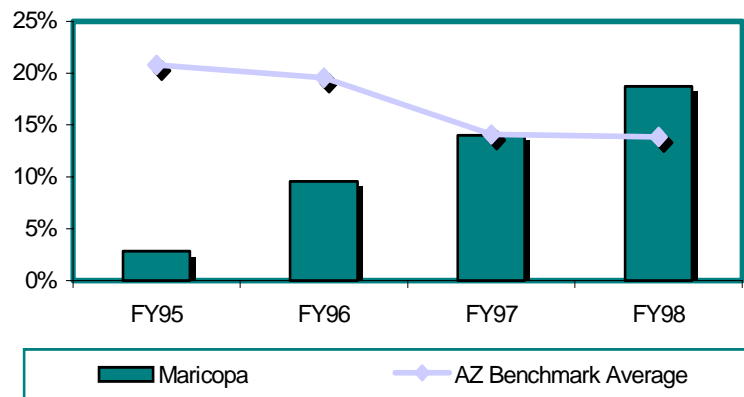
Liquidity is a comparison of cash equivalents to current liabilities. Liquidity measures the ability of a fund to pay current liabilities with liquid assets. A one-to-one liquidity ratio is the desired minimum standard (one dollar of cash available for every dollar of current debt).

From FY95 to FY98, Maricopa's liquidity significantly improved, while the AZ benchmark counties' average declined.

How Does Maricopa's General Fund Unreserved Fund Balance Compare to the AZ Benchmarks?

Maricopa's General Fund Unreserved Fund Balance as a percentage of Revenues shows significant improvement. In FY95 Maricopa was experiencing financial stress and compared unfavorably with other AZ counties. By FY98, Maricopa's General Fund Unreserved Fund Balance had recovered and surpassed the position of the AZ benchmark average.

Unreserved General Fund Balance As a Percentage of Revenues Comparison

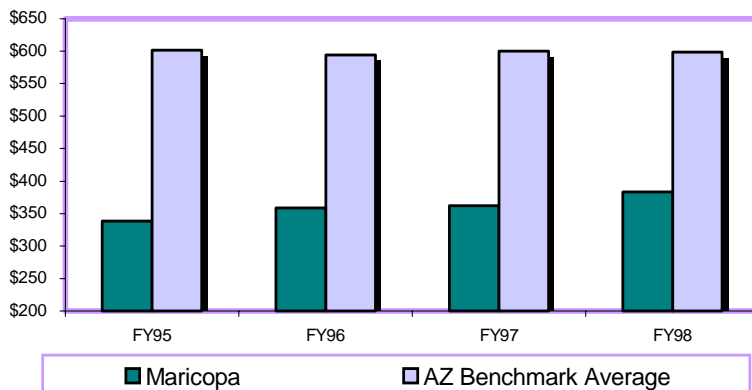


Maricopa's ratio favorably increased six fold, while the AZ benchmark average experienced a one third decrease (FY95-FY98).



ARIZONA COUNTIES COMPARISONS

Maricopa Governmental Revenues Per Capita In 1998 Dollars Compared to AZ Benchmarks



Maricopa per capita revenues were \$241 lower on average than the AZ Benchmarks (FY95-FY98).

How Do Maricopa's Revenues Compare to AZ Benchmarks?

Maricopa's per capita governmental revenue was consistently smaller than the AZ benchmark counties, FY95-FY98.

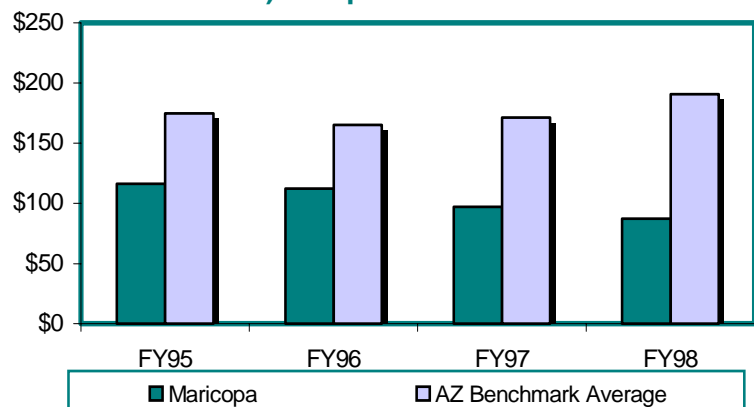
Governmental fund revenues include revenues from the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Fund. Previously, it was noted that Maricopa's property tax revenues remained level from FY90 through FY99. Maricopa's relatively flat per capita revenue pictured at left reflects the historical policy of maintaining low property tax rates.

How Does Maricopa's Long Term Debt Compare To AZ Benchmarks?

Maricopa consistently shows a significantly lower per capita debt position than the AZ benchmark counties.

Maricopa's reliance on long term debt decreased by 25% FY95 through FY98 while the AZ benchmarks increased by 9%.

Maricopa Long Term Debt Per Capita (In 1998 Dollars) Compared To AZ Benchmarks

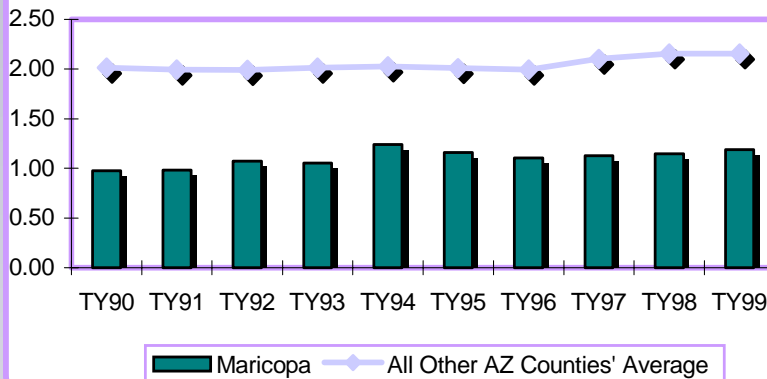


Maricopa's per capita four year average long term debt was 41% lower than the AZ benchmark four year average (FY95-FY98).



ARIZONA COUNTIES COMPARISONS

Primary Property Tax Rate Maricopa Compared to All Other AZ Counties



Maricopa's "ten year average" primary property tax rate is 36% lower than the "ten year average" of all other AZ counties.

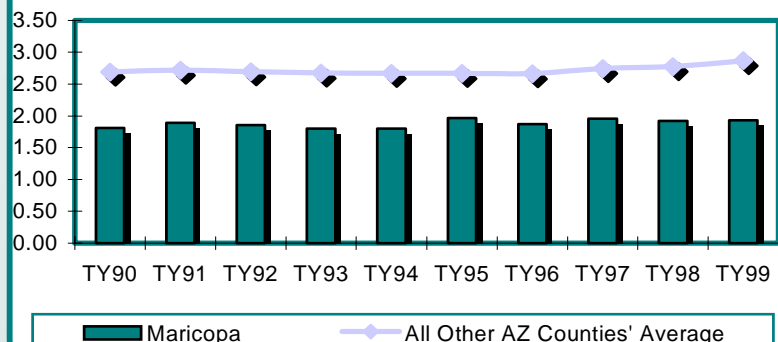
Is Maricopa's Primary Property Tax Rate Lower Than the Average of All Other AZ Counties?

This graph compares Maricopa's primary property tax rate to the average of all other AZ counties. Maricopa's property tax rate remains substantially lower from FY90 through FY99 than the other AZ counties average. Information presented is based upon the county primary rate. The primary rate data used here reflects the dollars going to the general fund. (Source: AZ Tax Research Foundation-unaudited. TY does not equate to FY. Example: TY93 reflects rate set in August 93, and corresponds to FY94.)

Is Maricopa's Total Property Tax Rate Lower Than the Average of All Other AZ Counties?

This graph compares Maricopa's total property tax rate to the average of all other AZ counties. The ten year trend shows Maricopa's total property tax rate is substantially lower. The total tax rate used in the graph includes bond issues, budget overrides, and special districts (flood, library, and jail). A comparison of this graph and the graph above shows that the gap between Maricopa's tax rates and the other AZ counties lessens when the secondary rate is included (Source: AZ Tax Research Foundation-unaudited. TY does not equate to FY. Example: TY93 reflects rate set in August 93, and corresponds to FY94.)

Total Countywide Primary and Secondary Property Tax Rates



Maricopa's "ten year average" total property tax rate is 31% lower than the "ten year average" of all other AZ counties.



MARICOPA INTEGRATED HEALTH SYSTEM

How Important is MIHS to Maricopa's Future?

A review of MIHS' key financial indicators is presented because:

- ◆ MIHS represents 32% or \$516 million of Maricopa's total FY99 expenditures.
- ◆ Health care delivery and services are important to Maricopa citizens.
- ◆ MIHS is a community health care safety net for the indigent.
- ◆ Nationwide health care cost increases are likely to impact MIHS' expenditures.

In future years, this section may include trend analysis of MIHS components and comparable benchmarks.

MIHS consists of:

- ◆ Maricopa Medical Center
- ◆ Maricopa Health Plan (AHCCCS Acute Care)
- ◆ Maricopa Long Term Care Program (ALTCS)
- ◆ Senior Select
- ◆ Health Select.

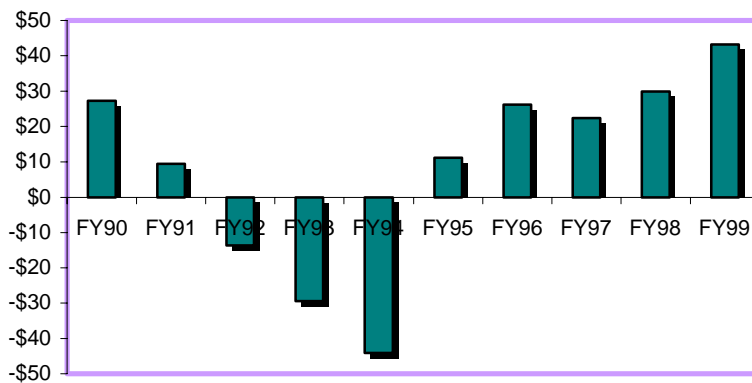


MIHS represents 32% or \$516 million of Maricopa's total FY99 expenditures



MARICOPA INTEGRATED HEALTH SYSTEM

Total MIHS Unreserved Retained Earnings (Uninflated)



MIHS' combined fund balance improved 198% between FY94 and FY99.

How Much Has MIHS' Combined Retained Earnings Improved?

MIHS is a combination of several enterprise funds sharing executive management, therefore the graph at left combines individual MIHS funds into an integrated whole. MIHS' combined retained earnings improved by \$16 million between FY90 and FY99. Most notable was the \$87 million combined retained earnings increase between FY94 and FY99. This 198% improvement is greatly attributable to General Fund subsidies and contributions, particularly the \$75 million payment in FY95.

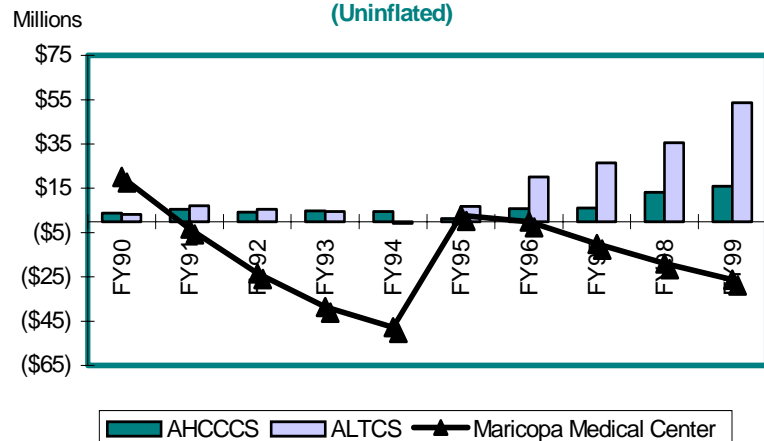
Note: Both charts on this page exclude MIHS' small health plans (Health Select and Senior Select).

What do Individual MIHS Retained Earnings Trends Look Like?

The graph breaks the combined components presented above into separate MIHS retained earnings balances.

In preparation for a health system reorganization, the General Fund transferred \$75 million to the Maricopa Medical Center in FY95. Maricopa Health Plan (AHCCCS Acute) and Maricopa Long-Term Care Program (ALTCS), have each realized significant annual retained earnings gains since FY95.

MIHS Year-End Unreserved Retained Earnings (Deficit) (Uninflated)

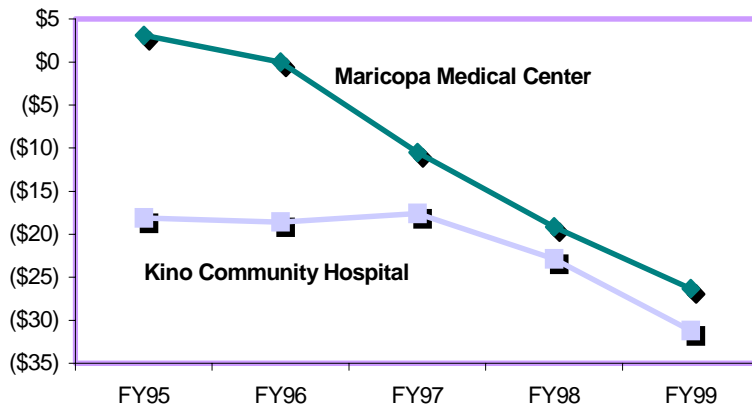


The Medical Center retained earnings deficit continues an unfavorable trend.



MARICOPA INTEGRATED HEALTH SYSTEM

Retained Earnings Deficit Comparison in 1999
Dollars (Millions)



MMC and Kino show a similar deficit equity trend.

Have MMC and Kino Retained Earnings Experienced a Decline?

Maricopa Medical Center (MMC) has experienced a deficit over the past nine fiscal years, except for an infusion of General Fund cash in FY95. (See previous page bottom graph).

The graph at left shows that Pima County's Kino Community Hospital has experienced a similar deficit retained earnings position since FY95. Although MMC and Kino differ in size, (MMC has three times the number of beds as Kino), the graph provides valuable information on relative trends.

How Do MMC and Kino Hospital's Current Ratio Compare?

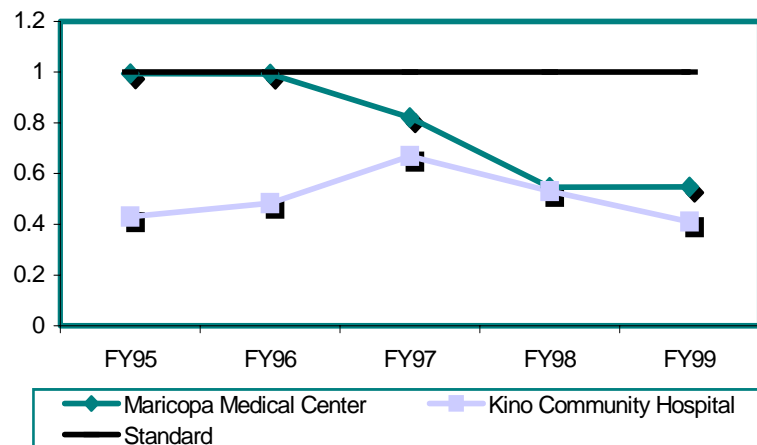
MMC's Current Ratio (Current Assets divided by Current Liabilities) has declined since FY96 and is now comparable to Pima's Kino Community Hospital. When current liabilities grow faster than current assets, the result is declining current ratios.

Potential causes of current ratio decline include:

- ◆ Escalating vouchers payable
- ◆ Larger amounts due to other funds
- ◆ Smaller cash collections
- ◆ Smaller collectible receivables

See graph on page A-8 of the Appendix for MMC's increasing vouchers (accounts) payable trend.

Current Ratio Comparison of MMC and Kino



MMC's current ratio declined nearly 45% from FY95 to FY99.



APPENDIX

Definition

Financial Condition is defined as a local government's ability to finance services on a continuing basis. A county in good financial condition can sustain existing services to the public, withstand economic slumps, and meet the demands of changing service needs.

Objectives, Scope, and Methodology

The objective of this report is to evaluate the financial condition of Maricopa County using key indicators. The selected indicators were derived from authoritative sources on evaluating governmental entity financial conditions, and judged to be the most indicative of a county's overall financial health.

Ten benchmark counties' and Maricopa County's audited financial statements were used as primary sources of data for this report. The benchmark counties are:

- | | |
|---------------|-------------------|
| ➤ Clark | (Las Vegas, NV) |
| ➤ Harris | (Houston, TX) |
| ➤ King | (Seattle, WA) |
| ➤ Multnomah | (Portland, OR) |
| ➤ Orange | (Santa Ana, CA) |
| ➤ Pima | (Tucson, AZ) |
| ➤ San Diego | (San Diego, CA) |
| ➤ Santa Clara | (San Jose, CA) |
| ➤ Salt Lake | (Salt Lake, UT) |
| ➤ Los Angeles | (Los Angeles, CA) |

Other sources include the Governmental Accounting Standards Board (GASB), the International City/County Managers Association (ICMA), ASU Center for Business Research, Arizona Department of Economic Security Research Administration, Arizona Department of Revenue Econometrics Unit, Maricopa County's Strategic Plans (budgetary documents), and Auditor General Reports.

The focus of the analysis was on the General Fund, but does include other funds when the General Fund is affected by the other fund(s), or when an overall County trend is examined. When pertinent, each section and graph presented define the fund(s) included in the analysis.

Trend analysis is used in this report. Trend analysis involves examining financial indicators' historical data over several years. A trend is defined as the direction the data is moving over a three-to-five year period. The data for this report was trended from FY90 through FY99 in the Benchmark Comparison section, from FY95 through FY98 in the Arizona County Comparisons section, and from FY95 through FY99 for certain views in the MIHS section.



APPENDIX

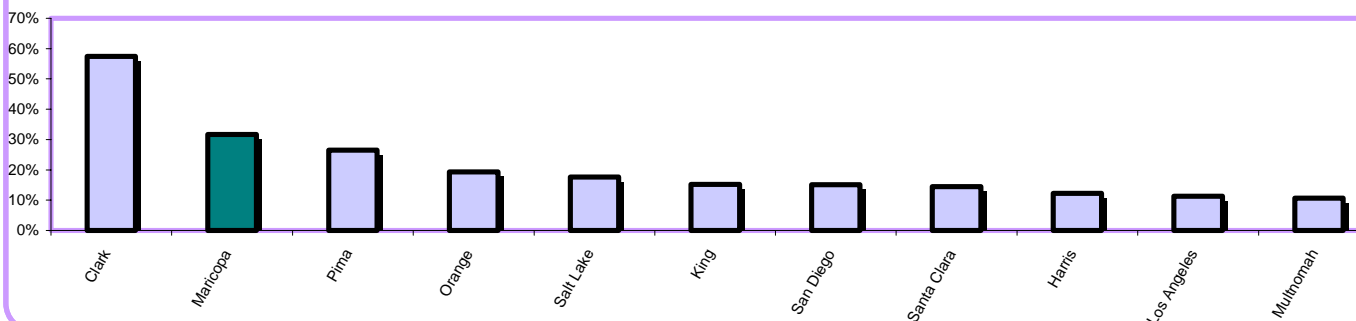
Fiscal years are identified as “FY94” (fiscal year ending June 30, 1994). Numbers are referred to as “actual,” otherwise as “adjusted for inflation, constant, or real” (e.g., “1999 dollars”). In a few cases, data is only available through FY98, and therefore the related information is adjusted for inflation using “1998 dollars.”

An “actual” number is the amount originally published in the CAFR. An “adjusted for inflation” or “constant” number has been adjusted to the purchasing power of a 1999 dollar, or in a few cases, a 1998

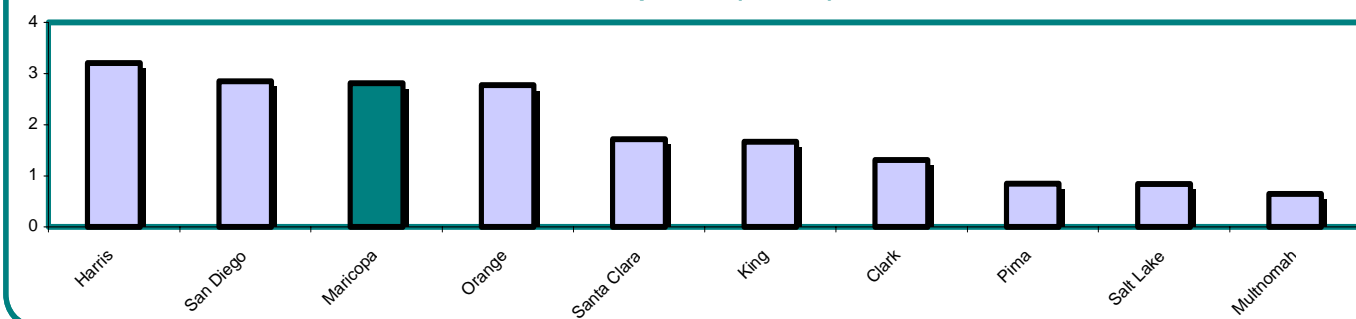
Benchmark Comparisons-

The graphs below show key characteristics for ten sister counties as compared to Maricopa County (Los Angeles excluded from some views).

Population Growth Rates Between 1990 and 1999



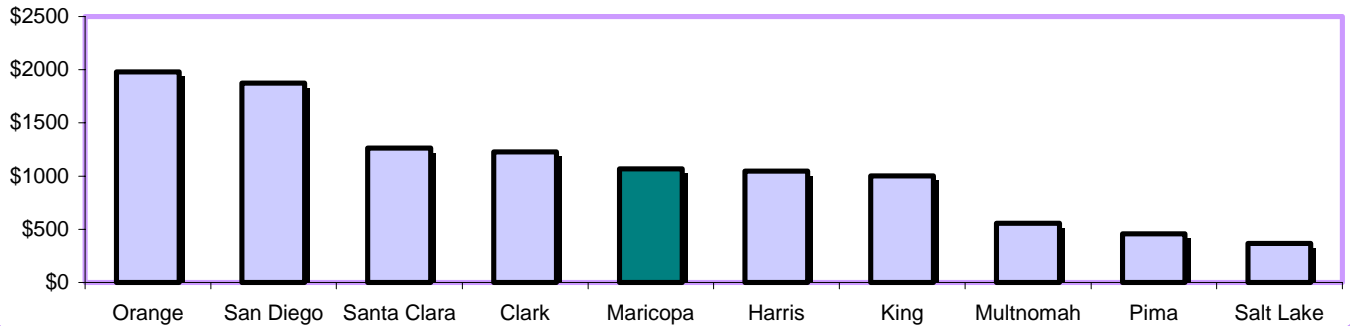
1999 Population (Millions)



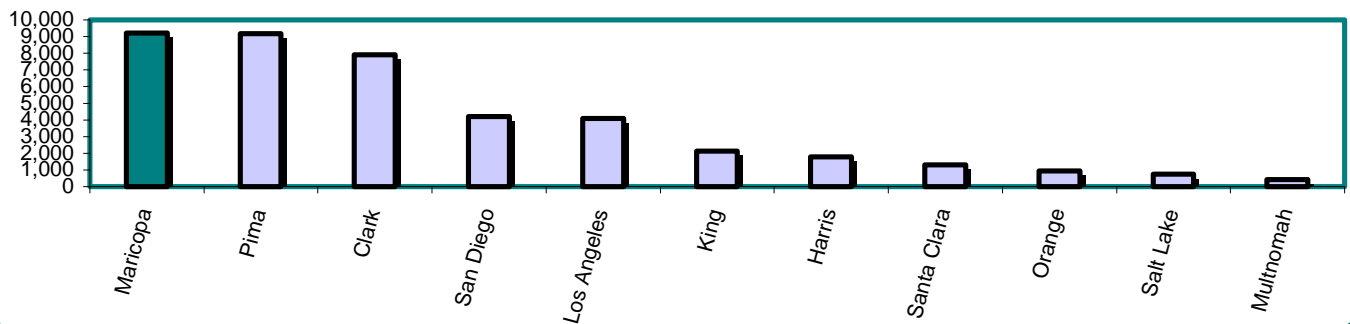


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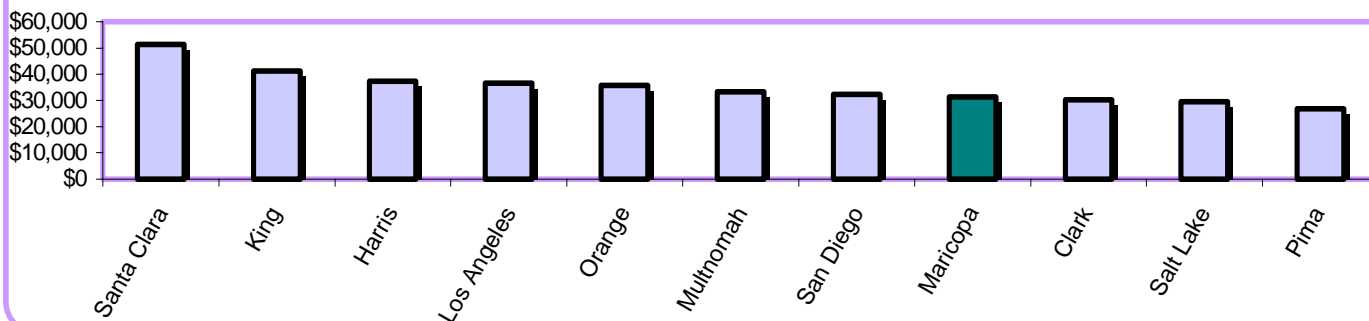
FY99 Total Governmental Revenues (Millions)



Approximate County Square Mileage



1998 Average Annual Citizen Pay





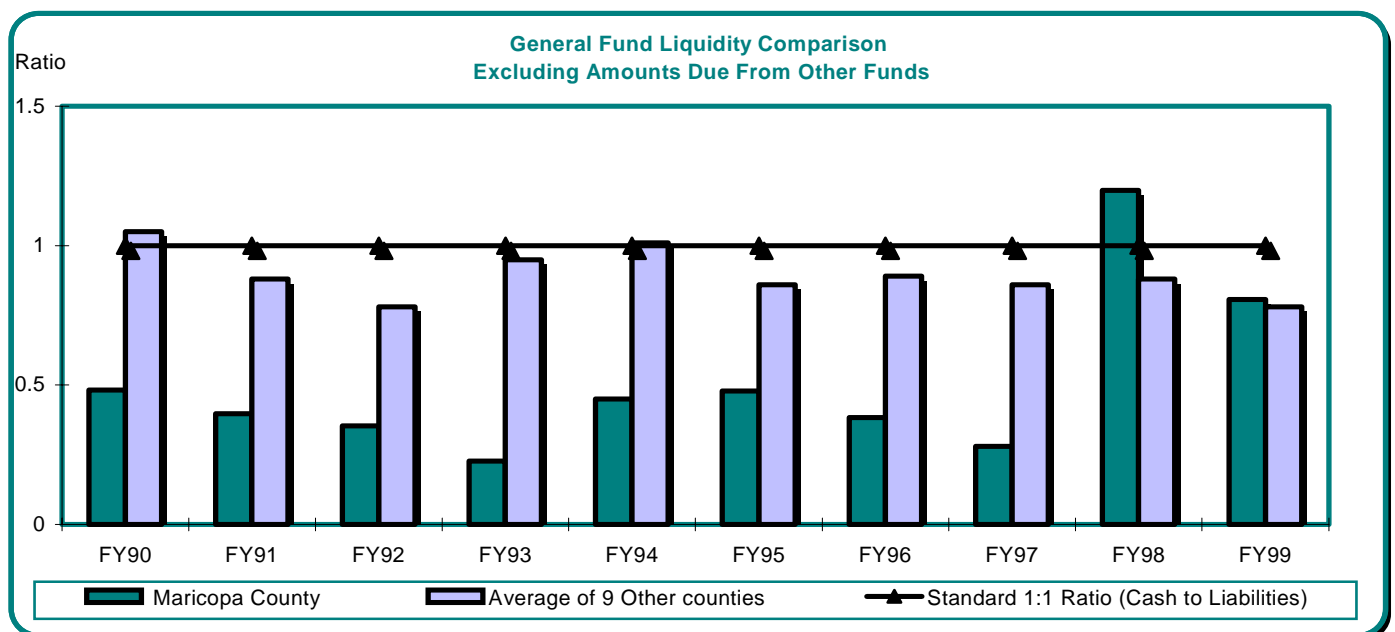
APPENDIX

Liquidity

The International City/County Management Association (ICMA) recommends a formula for calculating liquidity that divides cash and short-term investments by current liabilities. On pages 1 through 2 of this report, we present liquidity ratios that include “Amounts Due From Other Funds” as well as cash and short-term investments in the numerator of the equation. These amounts are largely comprised of General Fund cash that was reclassified to cover cash deficits of the Medical Center. Such a view implies that these cash deficits will ultimately be repaid.

The following graph presents the alternative view that conforms to the ICMA recommended formula (cash and short-term investments divided by short-term liabilities). This view depicts the effect that “Amounts Due From Other Funds” has on the liquidity ratio. It may also present a more realistic measure of liquidity as the Medical Center has a multi-year history of cash deficits. GASB 34 states that effective FY02, “...if repayment is not expected within a reasonable time, the interfund balances should be reduced and the amount that is not expected to be repaid should be reported as a transfer from the fund that made the loan to the fund that received the loan.” It is the position of County Financial Management that the Health System should be viewed as a single enterprise when determining its fiscal relationship to the General Fund, and could therefore eliminate the necessity for such a transaction when GASB 34 is implemented.

Note that Maricopa County’s liquidity ratio falls under the ICMA’s recommended 1:1 ratio in FY99 using the ICMA formula. Additionally, a greater portion of Maricopa’s General Fund cash equivalents consist of “Amounts Due From Other Funds” than the benchmark average.



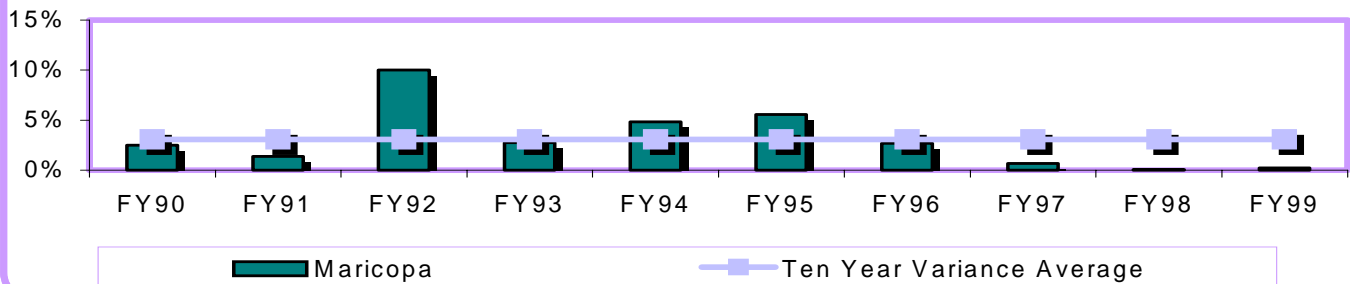


APPENDIX

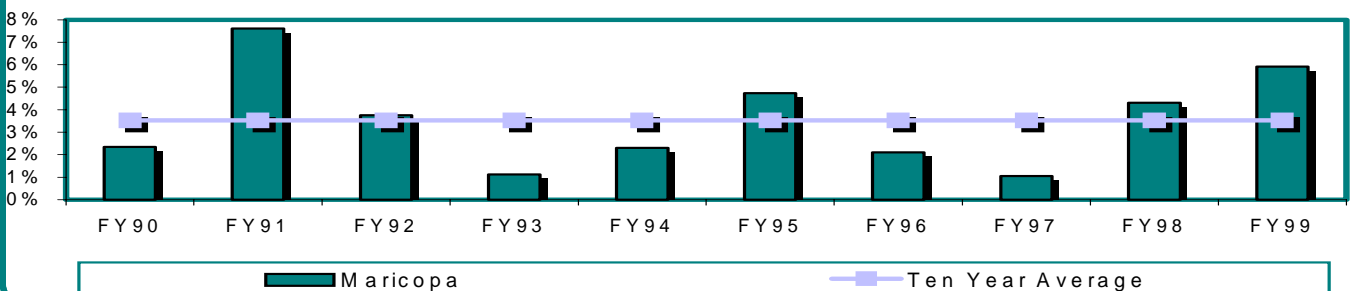
Revenue Forecasting

The following charts show comparisons between the results of FY1999-00 budgeting for the General Fund's major revenues and their ten year variance averages. As the VLT graph on the bottom of the page shows, forecasting of this revenue has become more difficult because consumers may now choose between annual and bi-annual registration. Note: All variances are stated as positive numbers for display purposes.

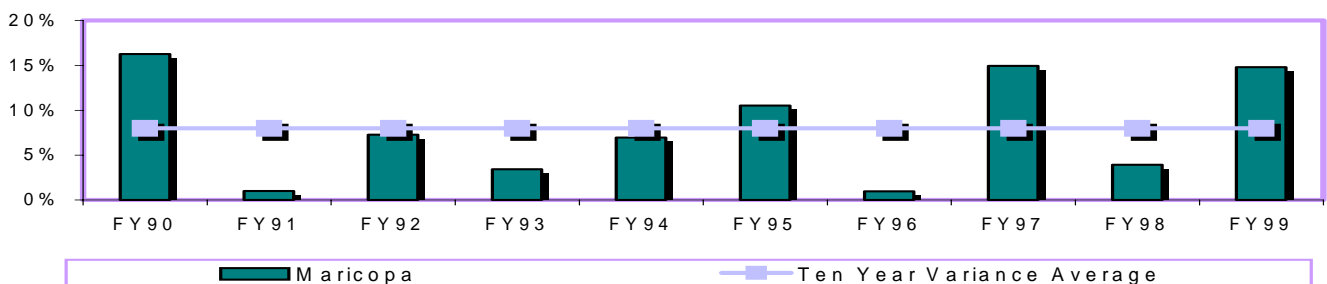
Property Tax Revenue Forecast Variances: Budget to Actual



Sales Tax Revenue Forecast Variances: Budget to Actual

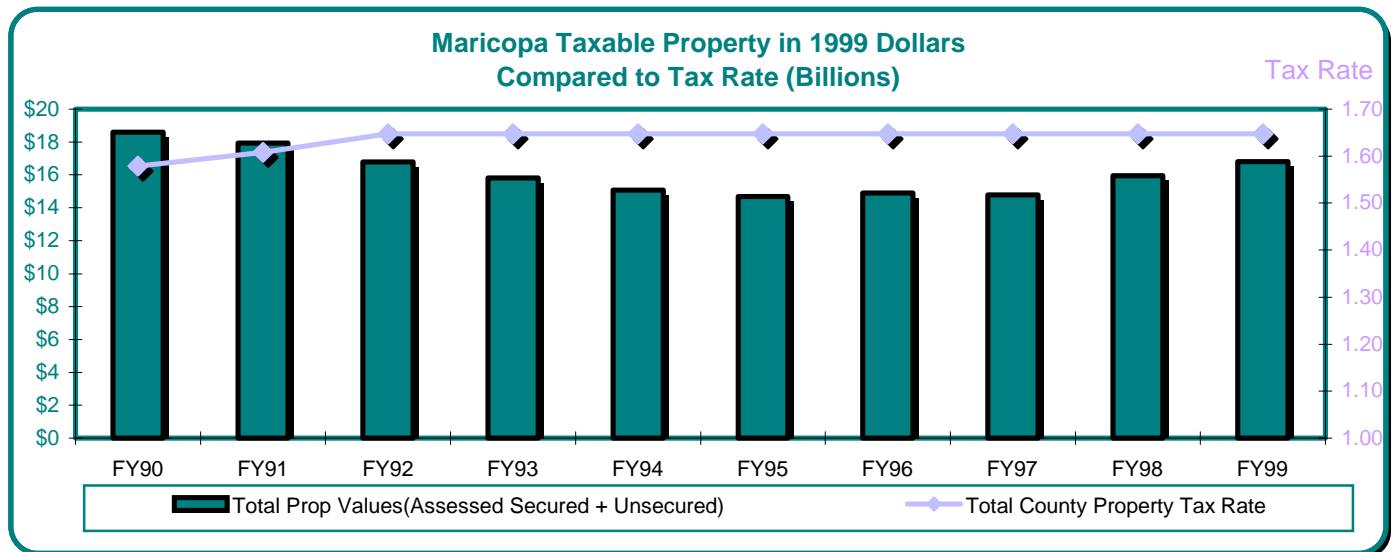


VLT Revenues Forecast Variances: Budget to Actual





APPENDIX



The total assessed value of taxable property in Maricopa County as expressed in constant 1999 dollars declined from FY90 through FY95. Subsequent to this period, the County has experienced a slight upswing during a period of flat tax rates. This economic upswing is primarily attributable to the economic growth enjoyed through the same period and the resulting increase in newly assessable properties. This slight increase will have a similar incremental effect on property tax revenues.

Financial Recovery is Reflected in the County's Bond Ratings

The County's financial position declined in the early 1990's. The County responded by restructuring its finances. Since June 1994, the County's bond rating has steadily improved. The following table illustrates the County's bond ratings from 1981 through May, 2000:

Moody's		Effective		Fitch IBCA		Effective Date
Aa-1	Upgrade	Aug. 1981				
Aa	Downgrade	Jul. 1993				
A-3	Downgrade	Jun. 1994				
A-2	Upgrade	Mar. 1997				
A-1	Upgrade	Nov. 1998				
Aa-3	Upgrade	May 2000		AA	New Rating	Apr. 2000



APPENDIX

What do the Moody's Ratings Mean?

According to Moody's, a rating helps investors determine the relative likelihood that they might lose money on a given fixed-income investment. Obligations that extend longer than one-year are rated **Aaa** through **C**. Moody's **Aaa** represents the highest quality, meaning that the obligation ranks highest in terms of investor safety. A **C** rating is the lowest level of credit quality. Investments rated **Baa** and above are considered "investment grade." Those rated **Ba** and below are considered "speculative grade". The numerical indicators further modify credit risk within each rating. A modifier of **1** indicates that the issue ranks in the higher end of its generic rating, while a modifier of **3** indicates that the issue ranks in the lower end of its generic rating¹.

The table presented above shows that Maricopa County's Long-term bonds, rated **Aa-3** by Moody's, are considered high-grade bonds¹. Maricopa County's trend since June 1994 has been one of improving ratings. In announcing its rating upgrade, Moody's referred to improvement in the county's financial condition, conservative fiscal strategies, elimination of non-service support for the county hospital, and the county's low debt position.¹

What does the Fitch IBCA Rating Mean?

According to Fitch IBCA, credit ratings are an opinion on the ability of an entity to meet its financial commitments. These credit ratings are used by investors as indications of the likelihood of getting their money back in accordance with the terms on which they invested. "Investment-grade" ratings (international long-term 'AAA' 'BBB' categories) indicate a relatively low probability of default, while those in the "speculative" or "noninvestment grade" categories (international long-term 'BB' 'D') either signal a higher probability of default or that a default has already occurred. Ratings imply no specific prediction of default probability. However, for example, it is relevant to note that over the long term, defaults on 'AAA' rated

U. S. corporate bonds have averaged less than 0.10% per annum, while the equivalent rate for 'BBB' rated bonds was 0.35%, and for 'B' rated bonds, 3.0%.²

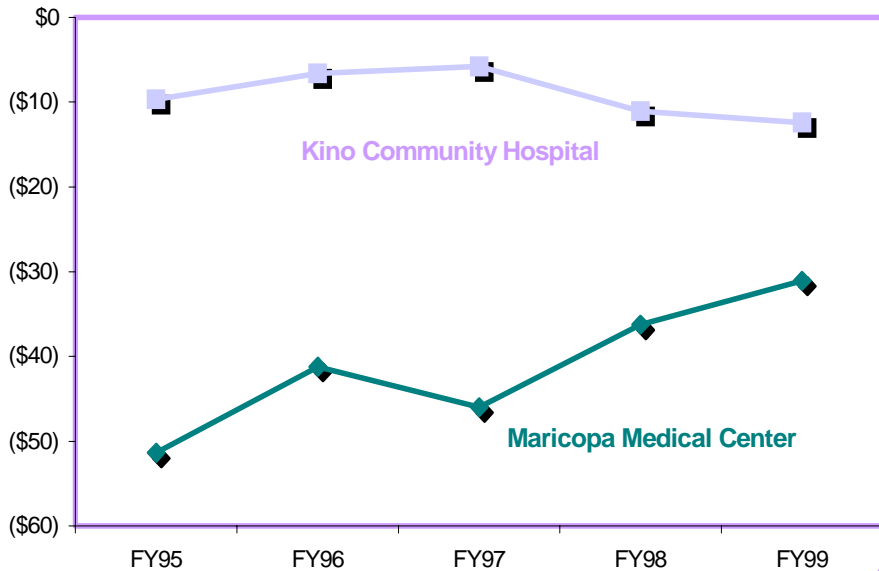
¹ Moody's Investor Service "Rating Actions, May 27, 2000", "How to Use Ratings" and "Rating Definitions" [Online]. Available: <http://www.Moodys.com.html>.

² Fitch IBCA "Rating Definitions" [Online]. Available: <http://www.Fitchibca.com.html>



APPENDIX

Operating Loss in Millions in 1999 Dollars



Maricopa Medical Center Operating Loss

The graph above shows MMC Operating Losses have improved by \$20 million between FY95 and FY99.

During the same period, Kino Community Hospital's five year trend shows an unfavorable operating loss increase of \$2.8 mil-

Maricopa Medical Center Vouchers Payable

From FY97 through FY99, MMC vouchers (accounts) payable quadrupled. Possible causes of this increase include: cash conservation efforts; large amount of year-end purchases (including capital expenditures); and increased purchasing volume.

In contrast to MMC, Kino Community Hospital maintained a consistent vouchers payable level.

Vouchers Payable in Millions (Uninflated)

